

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name ORION TOWNSHIP PUBLIC LIBRARY		County OAKLAND	
Fiscal Year End 12/31/2006		Opinion Date APRIL 9, 2007		Date Audit Report Submitted to State APRIL 26, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ANDREWS HOOPER & PAVLIK, PLC			Telephone Number 248-340-6050	
Street Address 3201 UNIVERSITY DRIVE, SUITE 350			City AUBURN HILLS	State MI
			Zip 48326	
Authorizing CPA Signature 		Printed Name COLLEEN P. CAVANAUGH		License Number 1101028252

Audited Basic Financial Statements

Orion Township Public Library

Year Ended December 31, 2006
With Report of Independent Auditors

Orion Township Public Library
Audited Basic Financial Statements
Year Ended December 31, 2006

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

The Board of Trustees
Orion Township Public Library
Lake Orion, Michigan 48362

We have audited the basic financial statements of the Orion Township Public Library (the Library) as of and for the year ended December 31, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Orion Township Public Library as of December 31, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Orion Township Public Library. The information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
April 9, 2007

Orion Township Public Library

Governmental Fund Balance Sheet / Statement of Net Assets

December 31, 2006

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 1,411,391		\$ 1,411,391
Accounts receivable	9,479		9,479
Due from trust fund	750		750
Prepaid expenses and deposits	132,790		132,790
Investments - current	957,753		957,753
Investments - noncurrent	473,070		473,070
Capital assets, net of accumulated depreciation of \$3,552,723		\$ 2,024,846	2,024,846
Total assets	<u>\$ 2,985,233</u>	<u>2,024,846</u>	<u>5,010,079</u>
Liabilities:			
Accounts payable	\$ 32,685		32,685
Accrued wages	78,114		78,114
Total liabilities	<u>110,799</u>		<u>110,799</u>
Fund Balances and Net Assets:			
Fund Balance - unrestricted and undesignated	1,274,434	(1,274,434)	
Fund Balance - designated for future building needs	1,600,000	(1,600,000)	
Total fund balances	<u>2,874,434</u>	<u>(2,874,434)</u>	
Total liabilities and fund balances	<u>\$ 2,985,233</u>		
Net Assets:			
Invested in capital assets, net of related debt		2,024,846	2,024,846
Unrestricted		<u>2,874,434</u>	<u>2,874,434</u>
Total net assets		<u>\$ 4,899,280</u>	<u>\$ 4,899,280</u>

Orion Township Public Library

Statement of General Fund Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities

Year ended December 31, 2006

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property tax	\$ 2,446,348		\$ 2,446,348
State aid	24,171		24,171
Sales tax	2,441		2,441
Penal fines	52,344		52,344
Copier service	9,517		9,517
Library fines	51,052		51,052
Interest income	164,859		164,859
Dividend income	5,238		5,238
Donations revenue	12,762		12,762
Miscellaneous income	2,559		2,559
Lost or damaged income	2,566		2,566
Digitization income	7,450		7,450
Meeting room income	970		970
Sale of capital assets	240		240
Realized and unrealized loss on investments	(2,834)		(2,834)
Total revenues	2,779,683		2,779,683
Expenditures:			
Copier supplies	4,691		4,691
Salaries	1,213,365		1,213,365
Payroll, employee benefit taxes and employer pension contribution	432,117		432,117
Supplies	70,745		70,745
Automation	122,097		122,097
Programs	12,555		12,555
Professional development collection	2,245		2,245
Library books and materials	232,884	\$ (232,884)	
Promotion, publishing and printing	85,633		85,633
Telephone	14,213		14,213
Utilities	69,771		69,771
Repairs and maintenance	37,547		37,547
Insurance and workers' compensation	42,213		42,213
Transportation	6,586		6,586
Education, training and dues	27,931		27,931
Professional and contractual services	56,483		56,483
Miscellaneous	2,765		2,765
Capital improvements	44,658	(27,428)	17,230
Depreciation		420,443	420,443
Total expenditures	2,478,499	160,131	2,638,630
Excess (deficiency) of revenues over expenditures and change in net assets	301,184	(160,131)	141,053
Other Financing Uses			
Transfers out - Retiree Health Care Trust Fund	348,578		348,578
Excess (deficiency) of revenues and other sources over expenditures and other uses and change in net assets	(47,394)	(160,131)	(207,525)
Fund balance/net assets - beginning of year	2,921,828	2,184,977	5,106,805
Fund balance/net assets - end of year	\$ 2,874,434	\$ 2,024,846	\$ 4,899,280

Orion Township Public Library

Statement of Fiduciary Net Assets

December 31, 2006

**Retiree Health
Care Trust Fund**

Assets:

Cash and cash equivalents	\$ 348,578
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Total assets	\$ 348,578
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Liabilities:

Due to General Fund	\$ 750
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Net Assets:

Held in trust for post retirement medical benefits	\$ 347,828
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Orion Township Public Library

Statement of Changes in Fiduciary Net Assets

Year ended December 31, 2006

	<u>Retiree Health Care Trust Fund</u>
Additions:	
Transfer in - General Fund	<u>\$ 348,578</u>
Total additions	<u>348,578</u>
 Deductions:	
Administrative expenses	<u>750</u>
Total deductions	<u>750</u>
 Changes in net assets	347,828
 Net assets - beginning of year	<u> </u>
 Net assets - end of year	<u><u>\$ 347,828</u></u>

Orion Township Public Library

Notes to the Basic Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies

Introduction

The accounting policies of Orion Township Public Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

Financial Reporting Entity

In April 1929, the Library was established under P.A. 164 of 1877 as a separate tax entity with a voted millage and elected board. On January 1, 1985, the Library became a separate financial operating entity from Orion Township. The Library provides various services to the residents of Orion Township.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity*.

Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities which are reported using the economic resources measurement focus and the accrual basis of accounting. These statements report financial information for the Library as a whole excluding fiduciary activities such as Retiree Health Care Trust Fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting.

Fund Types and Major Funds

Governmental Funds

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Fiduciary Fund

Agency Fund - This fund is used to assist the Library with the pre-funding of retiree health care benefits and to provide for the administration the fund. Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

The following funds are included:

- Retiree Health Care Trust Fund

The Retiree Health Care Trust Fund is used to fund the cost of retiree health care benefits for eligible Plan participants.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

Investments

Investments are carried at market value based on quoted market prices and consist of certificates of deposit, treasury notes and equity securities.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs. Management closely monitors outstanding balances and writes off receivables when the receivable is deemed uncollectible. Management believes any realization losses on the outstanding balance at December 31, 2006 would be immaterial, accordingly, no allowance is utilized.

Prepaid Expenses and Deposits

Certain payments to vendors reflect costs applicable to the future fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$3,500 and an estimated useful life in excess of two years. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	15 – 31.5 years
Building and improvements	31.5 years
Equipment, furniture and fixtures	5 – 10 years
Library books and materials	5 years

Compensated Absences

It is the Library's policy to permit employees to accumulate a limited amount of earned but unused vacation, which will be paid to the employees upon separation from the Library. Employees are paid their accumulated vacation pay upon termination of employment for any reason. Compensated absences over one year expire and do not get accrued; therefore, compensated absences are not reported in the government-wide financial statements.

Fund Equity

In the fund financial statements, the unreserved fund balances represent the amount available for budgeting future operations. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period.

Income Taxes

The Library is a Governmental sub-unit organization and as such is not subject to federal income tax.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the basic financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Cash and Cash Equivalent Deposits – Custodial Credit Risk

Cash deposits and investments (certificates of deposit with maturities less than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at various banks and investment companies.

At December 31, 2006, the Library had three depository accounts. The book value of the Library's bank deposits, consisting of three interest bearing checking accounts were \$192,285. Of the bank balance, \$100,000 was covered by the Federal Depository Insurance Corporation, and \$150,012 was uninsured and uncollateralized; therefore, subjecting the Library to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. However, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 100,000
Uninsured and uncollateralized	<u>150,012</u>
Total	<u>\$ 250,012</u>

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

3. Investments

At December 31, 2006, the Library had the following investments and maturities:

	Fair Market Value	Investment Maturities (in years)			
		Less than 1	1 – 5	6 - 10	More than 10
Deposits:					
Certificates of Deposit	\$ 1,624,238	\$ 1,289,168	\$ 335,070		
Money Market	1,226,315	1,226,315	-	-	-
Investments:					
US Government Securities	138,000	-	138,000	-	-
Mutual Funds	7,613	7,613	-	-	-
Total investments	\$ 2,996,166	\$ 2,523,096	\$ 473,070	\$ -	\$ -
Less investments reported as “Cash and Cash Equivalents” on the:					
Statement of Net Assets - General Fund	1,216,765				
Statement of Net Assets - Fiduciary Fund	348,578				
Total investments	<u>\$ 1,430,823</u>				
As reported on Statement of Net Assets					
Current investments	\$ 957,753				
Noncurrent investments	473,070				
Total investments	<u>\$ 1,430,823</u>				

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library’s investment policy does not specifically address interest rate risk. The Library’s policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for custodial credit risk. The Library also has the following investment policies further limiting its investment choices:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States. Total portfolio investment shall not exceed 25%.
- Commercial paper rated at the time of purchase at the highest classification established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase. Total portfolio investment shall not exceed 25%.
- Mutual Funds as described by section 1, Act 20 PA 1943 as amended. The authorization includes securities whose intention is to maintain a net asset value of \$1.00 per share or securities whose net asset value per share may fluctuate on a periodic basis. Total portfolio investment not to exceed 15%.

As of December 31, 2006, the credit quality ratings of the fixed income mutual funds with a fair value of \$7,613 were between Aa and Aaa by Moody's. U. S. Governmental securities with a fair value of \$138,000 were rated AAA by Standard and Poors. The short-term money market accounts with a fair value of \$1,226,315 were rated F1 and F1+ by Fitch, P-1 by Moody's and between A-1 to A-2 and AAA by Standard and Poors. Certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds and U. S. Governmental securities are not exposed to custodial risk. The Library's certificates of deposit are not rated however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices, with the exception of U.S. Treasury securities and authorized investment pools to each; no more than 30% of the total investment portfolio is invested with a single financial institution. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$ 46,036	\$ -	\$ -	\$ 46,036
Capital assets being depreciated:				
Land improvements	40,297	-	-	40,297
Building and improvements	3,019,031	-	-	3,019,031
Equipment, furniture and fixtures	1,157,706	27,454	-	1,185,160
Library books and materials	1,307,047	232,858	(252,860)	1,287,045
Subtotal	5,524,081	260,312	(252,860)	5,531,533
Accumulated depreciation	(3,385,140)	(420,443)	252,860	(3,552,723)
Net capital assets being depreciated	2,138,941	(160,131)	-	1,978,810
Total capital assets - net	\$ 2,184,977	\$ (160,131)	-	\$ 2,024,846

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

5. Lease Commitments

On February 24, 2006, the Library entered into a three-year operating lease agreement for a copier. The term of the lease is through February 15, 2009 with rental payments of \$539 per month beginning February 24, 2006.

Future minimum lease payments under this non-cancelable operating lease agreement at December 31, 2006 are as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2007	\$ 6,468
2008	6,468
2009	<u>1,078</u>
Total future minimum lease payments	\$ <u>14,014</u>

Rental expense for 2006 under non-cancelable operating lease agreements was \$5,390.

6. Retirement Programs

Group Pension Plan

The Library sponsors a defined contribution Group Pension Plan (the Plan) administered by the Library. The Plan may be amended from time to time by written amendment executed by the insurer of the Plan. The Plan covers full-time employees who are at least 18 years of age and have six months of service with the Library. The Library's required contributions are in varying amounts from 8% to 10% of compensation per participant depending on length of service. Participants may also make voluntary contributions of up to 10% of their monthly compensation. Library contributions to the plan amounted to \$74,826 in 2006.

Deferred Compensation Plan

The Library also has a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan is available to all employees and it permits each employee to defer a portion of their salary until future years. The Library does not contribute or match any employee's contributions to this plan.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

7. Post-Retirement Medical Benefits Plan

In 2006 the Library created a Retiree Health Care Plan and Trust (the “Plan”) under Internal Revenue Code Section 501(c)(9) as a voluntary employees’ beneficiary association to provide medical benefits to eligible retirees, their spouses and dependents. The Plan incorporates the terms of the medical benefits program as included in the health insurance contracts. Comerica Bank, a Michigan banking corporation, is the Trustee of the assets of the Plan effective July 19, 2006.

Benefits will be provided through traditional indemnity insurance, a health maintenance organization or a preferred provider organization. In order to be eligible for the retiree health insurance benefits, all of the following must be met:

- Employee of the Library prior to July 19, 2006 and has separated from service with the Library after July 18, 2006.
- At least 10 years of full-time continuous employment at the Library prior to retirement.
- Receipt of a retirement benefit from the Orion Township Public Group Pension Plan.
- Participation in the Library’s health insurance program at the time of retirement.
- Election, prior to entry date, to be covered under the Plan.
- Agreement to enroll in Medicare immediately upon becoming eligible for Medicare benefits.

The Library and retirees each pay 50% of the cost up to age 65 or qualifying for Medicare. The Library will pay an additional 2% of the cost for each year of full-time continuous employment in excess of 20 years up to a maximum 20% reduction. The Plan will be funded on a pay-as-you-go basis and the Library may make voluntary contributions to the Plan annually while retirees may be required to make contributions to the Plan in the future. No contributions were made to the Plan during 2006 other than the initial transfer from the General Fund of \$348,578, which were funds previously Board designated for this purpose. All expenses of the Plan shall be paid by the Plan. At December 31, 2006 there were no retirees eligible to receive benefits.

8. Property Taxes

The portion of property taxes allocated to the Library from Orion Township is recorded as revenue in these basic financial statements in the subsequent year in which they are levied. Accordingly, the Library has included in revenue for the year ended December 31, 2006, property taxes levied during December of 2005.

The portion of property taxes to be allocated to the Library from Orion Township for 2007, which were levied in December of 2006, are approximately \$2,716,670.

9. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year end. The General Fund's appropriated budget is prepared on a detailed line-item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The Library follows these procedures in establishing the budgetary data reflected in the supplemental information:

1. Prior to the August Board meeting, the Library Director submits to the Finance Committee, a proposed operating budget for the fiscal year commencing the following January 1. In August, the Finance Committee submits the proposed operating budget to the Library Board. The budget is legally adopted by a Library Board Resolution by September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Library's annual board meeting to obtain taxpayer comments.
3. Prior to January 1, the budget is legally adopted by a Library Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Act are disclosed as unfavorable variances on the budgetary comparison schedule (accounting principles generally accepted in the United States of America) - General Fund.
4. The Director is authorized to transfer budgeted amounts between line-items within an activity. However, the Library Board must approve any revisions that alter the total expenditures for any activity.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

9. Stewardship, Compliance and Accountability (continued)

Excess Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line-item basis.

During the year ended December 31, 2006, the Library incurred expenditures in excess of the amounts appropriated as follows:

Budget Item	Budget Appropriation	Actual Expenditures	Variance
General Fund			
Fringe benefits	\$ 424,000	\$ 432,117	\$ 8,117
Transfers out - Retiree Health Care Trust			
Fund	-	348,578	348,578

10. Designated and Undesignated Donations

The Library receives donations from the general public that are both designated and undesignated. The undesignated donations are recorded as General Fund revenue as received and expended by the Library as needed. Designated donations are recorded as General Fund revenue as received and spent in a manner consistent with the donors' restrictions. Due to timing differences, it is not always possible to spend these designated donations in the same year they were received. However, as of December 31, 2006, the Library had no unspent designations.

11. Risk Management

The Library is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Library carries commercial insurance for risks to cover these losses. The Library also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

12. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 2,874,434
Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the funds	<u>2,024,846</u>
Net Assets – Full Accrual Basis	<u>\$ 4,899,280</u>
Net Change in Fund Balance – Modified Accrual Basis	\$ (47,394)
Capital outlays are reported as expenditures in the statement of revenue, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Capital outlay	260,312
Depreciation	<u>(420,443)</u>
Net Change in Net Assets – Full Accrual Basis	<u>\$ (207,525)</u>

Required Supplemental Information

Orion Township Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2006

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property tax	\$ 2,410,000	\$ 2,442,000	\$ 2,446,348	\$ 4,348
State aid	28,000	24,000	24,171	171
Sales tax	2,000	2,000	2,441	441
Penal fines	42,000	52,000	52,344	344
Copier service	8,500	7,700	9,517	1,817
Library fines	30,000	45,000	51,052	6,052
Interest and Dividend	52,500	115,000	170,097	55,097
Miscellaneous	18,000	6,000	10,951	4,951
Donations	15,000	12,000	12,762	762
Total revenues	2,606,000	2,705,700	2,779,683	73,983
Expenditures:				
Salaries	1,242,000	1,242,000	1,213,365	28,635
Fringe benefits	391,000	424,000	432,117	(8,117)
Supplies	65,000	88,000	75,436	12,564
Promotion and printing	71,500	88,000	85,633	2,367
Automation and technology	142,000	155,000	122,097	32,903
Materials and programs	325,000	255,000	247,684	7,316
Telephone	17,000	16,000	14,213	1,787
Utilities	61,000	72,000	69,771	2,229
Repairs and maintenance	48,000	48,000	37,547	10,453
Capital improvements	65,350	60,000	44,658	15,342
Insurance and workers' compensation	49,000	45,000	42,213	2,787
Mileage and transportation	7,000	7,600	6,586	1,014
Education, training and dues	33,000	33,000	27,931	5,069
Professional contract services	80,000	70,000	56,483	13,517
Miscellaneous use taxes	3,150	3,150	2,765	385
Retirement Health Benefit Fund Contribution	6,000	6,000		6,000
Total expenditures	2,606,000	2,612,750	2,478,499	134,251
Excess (deficiency) of revenues over expenditures		92,950	301,184	208,234
Other Financing Uses				
Transfers out - Retiree Health Care Trust Fund			348,578	(348,578)
Excess (deficiency) of revenues and other sources over expenditures and other uses and change in net assets		92,950	(47,394)	(140,344)
Fund balance - beginning of year	2,921,828	2,921,828	2,921,828	
Fund balance - end of year	<u>\$ 2,921,828</u>	<u>\$ 3,014,778</u>	<u>\$ 2,874,434</u>	<u>\$ (140,344)</u>

ORION TOWNSHIP PUBLIC LIBRARY
REPORT TO THE BOARD OF TRUSTEES
April 9, 2007

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

The Board of Trustees
Orion Township Public Library
825 Joslyn Road
Lake Orion, Michigan 48362

In planning and performing our audit of the financial statements of the Orion Township Public Library for the year ended December 31, 2006, we considered the Library's internal control to plan our auditing procedures for the purpose of expressing our opinion in the financial statements and not to provide assurance on the internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, we identified certain deficiencies in internal control as discussed within this letter.

This letter does not affect our report dated April 9, 2007, on the financial statements of Orion Township Public Library. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Copy and Fax Machine

During our walkthrough of Cash Receipts, we noted that all cash that comes into the copy and fax machine is counted and deposited by the Bookkeeper. There are no reports that are printed out from the copy and fax machine indicating how much was collected. The average amount collected per week varies from \$30-\$70. We recommend that copy machine cash be counted under dual control and both individuals initial on a copier cash log sheet. This individual should be separate from the accounting and bookkeeping function.

Purchase Orders

The Library does not require employees to fill out purchase orders. We recommend that the Library require employees to fill out purchase orders for all purchases over a certain dollar amount and for non-recurring purchases. We also recommend that the Library monitor the numerical sequence of purchase orders used on a periodic basis.

Petty Cash

The Library uses both ink and pencils to fill out petty cash vouchers. We recommend that the Library use only ink to fill out all vouchers.

Investments

The Library does not perform periodic surprise counts of evidence of ownership of investments to ensure that all investments held are in the name of the Library. We recommend that the Library perform periodic surprise counts of evidence of ownership of investments.

The above comments represent our observations during the course of the audit and are intended to be constructive suggestions for improvements. We would be pleased to discuss these comments with you at greater length and to assist you with any other needs, should you so desire.

This communication is intended solely for the information and use of the Board of Directors, management, and others within Orion Township Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Andrews Hlopu & Pavlik P.L.C.

Auburn Hills, Michigan
April 9, 2007